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E.O. 12958: N/A
TAGS: EINV EFIN ETRD KTDB OPIC USTR UP
SUBJECT: UKRAINE: 2008 INVESTMENT CLIMATE STATEMENT, PART II

REF: A) KYIV 99
B) 2007 STATE 158802

¶1. Ref A contained part one of the 2008 Investment Climate Statement (ICS) for Ukraine. Part two of the ICS continues below.

Begin Text of Part II:

A.7. Protection of Property Rights

MORTGAGES

During the last few years, Ukraine's policymakers have launched several initiatives to develop a mortgage market, which have resulted in a strong increase in the number of mortgages and laid the legislative and administrative groundwork for a functioning mortgage market. Adoption of the Law "On Withholding Land Shares in Kind" in 2002 and the Law "On Mortgages" in 2003 was particularly important. The GOU created the State Mortgage Institution (SMI) in October 2004 with authorized capital of UAH 50 million ($10 million) as a liquidity facility largely aimed at putting downward pressure on lending rates by allocating capital efficiently. The SMI began issuing corporate securities during the first quarter of 2007. The use of mortgages in Ukraine to secure ownership in property is growing ? apartments, houses, office buildings, other types of buildings, and summer house (dacha) plots have secured mortgages. Development of the secondary mortgage market is underway -- enabled by passage of the Covered Bond Law in late 2005. To test the law, USAID assisted a local bank in the spring of 2007 to issue a pilot mortgage covered bond to demonstrate how residential mortgages can be traded as securities. The pilot issue identified a number of deficiencies in the law and resulted in a package of amendments now being considered by the government. Their passage is likely to result in rapid development of the secondary market and securitization of nearly $10 billion in residential mortgages -- an increase of $9.5 billion since the beginning of 2005. USAID helped create of a pledge registry, the first of its kind in the former Soviet Union, which applies to individuals' obligations with regard to movable property and tax liens. Though rudimentary, the registry is nationwide, providing a more transparent lending market for personal property.

INTELLECTUAL PROPERTY RIGHTS (IPR)

The United States withdrew Ukraine's benefits under the

Generalized System of Preferences (GSP) program in 2001 and imposed trade sanctions and elevated Ukraine to the Special 301 Priority Watch List in 2002 as a result of Ukraine's failure to adequately protect intellectual property, particularly copyrighted music. The United States lifted sanctions in August 2005, after the Ukrainian government made significant improvements to IPR protection over a number of years, culminating in the passing of amendments to the Law "On Laser-Readable Disks" in July 2005. In January 2006, the United States reinstated GSP benefits for Ukraine and lowered Ukraine's designation under Special 301 from Priority Foreign Country to Priority Watch List. Also in January 2006, the GOU agreed to work with the U.S. Government and with U.S. and domestic industry to monitor the progress of future enforcement efforts through the IPR Enforcement Cooperation Group. This bilateral group has conducted a series of successful dialogues, meeting roughly once every four months. The GOU has also agreed to meet biannually with European Commission officials as part of an EU-Ukraine IP Dialogue. Despite these positive developments, Ukraine remains a trans-shipment point, storage location, and market for pirated and counterfeit goods produced in Russia and elsewhere.

Ukraine is an active member of the World Intellectual Property Organization and a signatory to a number of IPR-related international agreements and conventions. As part of its ongoing efforts to negotiate accession to the WTO, Ukraine has adopted a series of laws to bring its IPR regime into compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Parliament passed amendments to its Customs Code in November 2006 that provide customs officials the ability to use ex officio authority to seize suspected pirated or counterfeit goods. In May 2007, Parliament passed a law amending the Civil and Criminal Codes of Ukraine in order to provide for the seizure and destruction of IPR-infringing goods and equipment, in line with Article 46 of TRIPS.

Ukraine amended its Law "On Medicinal Drugs" in November 2006 to provide a five-year period for the protection of pharmaceutical test data that is submitted to government authorities to obtain marketing approval. In September 2007, the Ministry of Health issued a regulatory act to ensure implementation of this law and to clarify some procedures. Pharmaceutical industry representatives complain that implementation of the law remains a problem, however. Parliament also passed an amendment to the Law "On Pesticides and Agrochemicals" in November 2006 that provides a ten-year period of protection for agricultural chemicals. In September, the Cabinet of Ministers issued a regulation to abolish discriminatory fees on the testing and registration of plant varieties.

The State Department of Intellectual Property (SDIP) is responsible for the formulation and implementation of Ukraine's intellectual property policy. In order to improve IPR enforcement, the Ministry of Internal Affairs and the State Customs Service have also set up units to deal exclusively with IPR violations. These under-staffed units have difficulty dealing with the large number of IPR infringements. Amendments to the Criminal Code of Ukraine passed in February 2006 lowered thresholds, so that violations with smaller amounts of damage to rights holders can also be prosecuted as IPR infringement. As a result, prosecutions and convictions of IPR-related crimes have increased significantly in recent years. However, in many cases, the rights holder must actively engage with the Ministry of Internal Affairs or the State Customs Service to obtain enforcement. Judges too often dismiss cases for improper reasons, or hand down minimal sentences. Generally speaking, the number of judges trained in IPR law remains low.

Trademarked and copyrighted goods must be registered for a fee ($400 for the first good for the first year) in

Customs' rights holder database in order to be guaranteed protection. Generally low confidence in the Ukrainian judicial system has meant few enterprises have brought private lawsuits to protect intellectual property rights, although there was a landmark ruling in September 2007 by Ukraine's High Commercial Court against an illegal music download website. Legal experts and government officials have called for the formation of a special patent court in Ukraine to adjudicate patent cases, but to date there has been no concrete action towards this end.

A.8. Transparency of the Regulatory System

BUREAUCRATIC REGULATORY PROCEDURES

The number of regulations, required certificates, and inspection regimes in Ukraine imposes a significant regulatory burden on private enterprise. While the time and costs related to business registration have been reduced, the GOU still requires enterprises to obtain numerous permits to conduct business. The Law "On Permits System in Economic Activity," which entered into force in January 2006, canceled more than half of the required permits and increased the number of locations for obtaining permits six fold. The government also tried to expand "One-stop Registration Shops" that allow new businesses to be registered within two to three days, instead of a month, as in the past. The World Bank "Doing Business" database rated Ukraine 109th in 2008 for ease in starting a business, down from 105th in 2007. "Doing Business 2008" estimates that on average it takes 27 days and $152.10 (7.8% of GNI per capita) to open a business in Ukraine; OECD averages are 14.9 days and 5.1% of GNI per capita.

LICENSING

Ukraine applies both activity and import licensing regimes. The Law "On Licensing Certain Types of Economic Activities" of June 2000 (and amended on January 17, 2002) provides a list of activities subject to licensing. Licensing applies to nearly 60 economic activities and is meant for protection of human, animal or plant health, the environment, public morals, and national security, or for prudential regulation of the financial sector. Businesspeople continue to cite burdensome activity licensing requirements as major impediments to commerce in Ukraine. Fees are described as high and compliance burdensome, particularly for telecommunications equipment.

Import licenses are required for some goods. The list of goods covered by the licensing regime and the license terms are decided annually by the Cabinet of Ministers. In 2007 the list included pesticides, alcohol products, optical media production inputs, some industrial chemical products and equipment containing them, official foreign postage stamps, excise marks, officially stamped/headed paper, checks and securities, some goods that contain sensitive encryption technologies, and ozone-depleting substances. For some products an importer is required to receive prior approval, which may or may not be automatic, from the relevant administrative agency before receiving the necessary import license from the Ministry of Economy. For some goods, product certification is a prerequisite for an import license. Importers can certify the compliance of a foreign facility to Ukraine's technical regulations applied to imports. The U.S. distilled spirits industry reports that this option usually involves a burdensome visit and costly inspection by Ukrainian government officials. If approved, however, the supplier receives a certificate of conformity valid for two to three years, which avoids the burden of certifying each shipment and subjecting goods to mandatory laboratory tests upon arrival in Ukraine.

RULEMAKING/INSPECTIONS

Proposed draft laws and regulations are available on Parliament's website for public review, but there is no

formal procedure for submitting comments.

Current Ukrainian legislation envisages a mandatory financial inspection of a business entity per year and requires a minimum of 10 days notice. Non-financial inspections (i.e. taxes, fire safety, sanitation, etc.) can be burdensome and impediments to doing business in Ukraine.

CERTIFICATION/HEALTH AND SAFETY POLICIES

Technical standards and certification requirements are imposed on many imports. The certification body is the State Committee of Ukraine for Technical Regulation and Consumer Policy ("DerzhSpozhyvStandard"). Although Ukraine belongs to several international standardization bodies, such as the International Organization for Standardization (ISO), for many years it generally had not recognized foreign product certificates, even if they are issued in line with international standards, unless recognition is mandated through an international treaty signed by Ukraine. Standardization procedures can be lengthy, burdensome, and expensive; standards can be vague, inflexible, and subject to frequent changes. Product standards are compulsory for a larger percentage of goods and services than in most of the world. According to a 2007 survey by the International Finance Corporation, over 60% of Ukrainian businesses have to comply with compulsory standards and/or technical specifications.

DerzhSpozhyvStandard is responsible simultaneously for development and approval of standards, issuing certificates, conducting inspections of producers, and ensuring market surveillance and protection of consumer rights, which some experts consider a conflict of interest. DerzhSpozhyvStandard has a network of 114 accredited product certifying bodies, including 60 accredited certifying bodies for quality management systems, as well as about 780 testing laboratories throughout Ukraine, 170 of which are accredited by the National Accreditation Agency as complying with international standards. Depending on the type of product, testing and applicable certification scheme, the certification process can take from three days to one month. Companies seeking testing should contact DerzhSpozhyvStandard.

Importers can apply for three types of technical standard certificates: a certificate for a single batch of goods; a certificate for one year, which is valid for all imported goods during that year with one or two additional selective tests (this type of certification is the most common in Ukraine); and a certificate for five years, which requires

inspection of production facilities.

Some certification agencies do much of their regulatory work with little or no coordination with other Ukrainian bodies performing similar tests. Many products require multiple certificates from different agencies, with local, regional, and municipal authorities often requesting additional documentation beyond that required by central bodies. Experts allege that government officials responsible for issuing licenses often require businesses to provide documents that are not mandatory, deliberately conceal information in order to confuse a potential licensee, or delay issuing documents in order to induce licensees to offer a bribe.

These issues are being addressed during Ukraine's WTO accession negotiations, and, as recently as September 2007, Ukraine has reduced the number of products subject to mandatory certification. Upon WTO accession, Ukraine will be obliged to apply such mandatory requirements only in conformity with WTO provisions on technical regulations (i.e., only in defense of human, animal, and plant health and safety), and only based on sound science. A May 2007 amendment to the Law "On Standards, Technical Regulations and Conformity Assessment Procedures" helped to guarantee precedence of international over regional standards and

introduced provisions related to conformity assessment recognition, although further amendments may be needed to ensure that Ukrainian authorities will accept the results of conformity assessment procedures performed in the United States. Ukraine's National Accreditation Agency is taking steps to become a member of the International Laboratory Accreditation Cooperation (ILAC), anticipated in 2009. Once an ILAC member, Ukraine should significantly increase the acceptance of test results of laboratories accredited with, and notified by, ILAC member bodies.

In addition, Ukraine has, in the past, applied a range of sanitary and phytosanitary (SPS) measures that restrict imports of a number of U.S. agricultural products, among them, pork, beef, and poultry. Ukraine's certification and approval process is lengthy, duplicative, and expensive. Ukraine maintains a complex and non-transparent system for overseeing human and animal health measures that involves overlapping authority by the Veterinary Service, Sanitary Service, and DerzhSpozhyvStandard. Over the past few years, however, Ukraine has passed amendments to several laws and regulations, most importantly to the Law "On Veterinary Medicine" and the Law "Quality and Safety of Food Products and Food Raw Materials," to bring its legislative and regulatory framework into compliance with requirements of the WTO SPS Agreement.

Ukraine's biotechnology approval process has been inoperative for some time. This has resulted in unpredictable sales conditions for corn products, soybeans, and meal. The United States is working with Ukraine to establish procedures regarding biotechnology that are based on modern, science-based risk assessment principles and guidelines, including those of the WTO SPS and Technical Barriers to Trade (TBT) Agreements, the Codex Alimentarius, and the International Plant Protection Convention (IPPC). In May 2007, Parliament passed a new law establishing a framework for the creation, testing, and use of products of biotechnology. The government still needs to issue implementing regulations for the law to take practical effect, however.

For many years, Ukraine has worked to bring its standardization system into conformity with the European Standards System. The law "On Assurance of Conformity" is replacing mandatory certification for many types of products with assessment procedures in conformance with international standards and the "New Approach" directives of the European Union, including the principle of "presumption of conformity to standards." On August 1, 2002, the National Accreditation Body started operations to ensure the use of standards and procedures consistent with European Cooperation for Accreditation (ECA) policy.

A.9. Efficient Capital Markets and Portfolio Investment

BANKING

The Ukrainian banking system consists of the National Bank

of Ukraine (NBU) and commercial banks. The NBU is responsible for monetary policy, licensing of commercial banks, and oversight of their activities.

Ukraine's banking sector is modernizing and growing rapidly, and is playing a growing role in Ukraine's economy. Bank capital is about 10% of GDP. Total bank assets in Ukraine are about UAH 510 billion, with total loan assets of UAH 370 billion (as of October 2007). Money lending and deposits grew at a fast 56% and 36% respectively in January-October, 2007. Bank deposits account for 40% of GDP. Interest rates continued to decline from 15.0% in 2006 to 13.8% in 2007, making credit more accessible. There are 154 banks operating in Ukraine, but a handful of banks dominate the market. The top fifteen banks control 64% of the loans outstanding and own 45% of the total capital of the system. As the volume of consumer lending grew by over 70% in January-October, 2007,

the share of loans exceeding one year stood at 44% of the total loan portfolio of the banking system, up from 43% last year. Non-performing loans were registered at 2% of the total lending portfolio in 2006, the latest data available. Foreign borrowing by Ukrainian banks has grown rapidly in recent years, from $7.8 billion at the beginning of 2006 to $25.7 billion after nine months of 2007. Greater reliance of banks on foreign borrowing to fund domestic lending operations raised concerns about the sensitivity of Ukraine's banking sector to international shocks. Borrowing rates for Ukrainian banks on international markets rose substantially as a result of the summer 2007 sub-prime crisis and credit crunch, yet as of December 2007 banks were still able to raise funds abroad, in part because several larger banks are now owned by foreign banks and can rely on their parent bank. Borrowing by Ukrainian banks from other banks grew by over 70% in ¶2007.

In January 2002, the Law "On Banks and Banking Activity" eliminated discrimination against foreign banks. It entrusted the NBU with issuing banking licenses and includes provisions to prevent money laundering. The NBU sets minimum capital requirements each year to be met by the banks by the year-end. Current minimum capital requirements range from UAH 20.04 million ($4 million) to UAH 133.3 million ($26.3 million). Foreign licensed banks may carry out all the same activities as domestic banks and there is no ceiling on their participation in the banking system. Foreign banks can operate via subsidiaries in Ukraine. In November 2006, Parliament approved an amendment to the law "On Banks and Banking Activity" permitting foreign banks to operate via branch offices. The law anticipates a transition period of five years and sets requirements for branches of foreign banks, including cooperation with the Financial Action Task Force and UAH 68.8 million ($13.6 million or EUR 10 million) minimum capital of the branch. Foreign banks have significantly increased their presence in Ukraine's banking sector in recent years, usually through the acquisition of Ukrainian banks. Foreign banks now account for approximately 31% of bank capital in Ukraine.

Ukraine remains a cash economy, but the use of credit cards is on the rise. From January through September 2007, the use of credit cards increased by 13% and use of ATM cards increased by 51%, despite widespread credit/ATM card fraud in Ukraine.

INSURANCE

Currently, based on the 1996 Law "On Insurance," only insurance companies registered in Ukraine may carry out insurance operations. There is a lower minimum capital requirement for domestic insurance companies than insurance companies with foreign shareholders. Foreign insurance companies can invest in local companies, but to operate locally they are required to open branch offices. Parliament adopted amendments to the Law "On Insurance" in November 2006 and May 2007, however, that give foreign companies the right to operate in Ukraine through affiliates five years after Ukraine accedes to the WTO.

CAPITAL MARKETS

The legal and regulatory framework, as well as financial disclosure systems for the securities market, continues to lag behind international standards. Basic market infrastructure exists as does a competent regulator, but the legislative basis for capital market operations is weak. Rulings of the Securities and Stock Market State Commission (SSMSC) have insufficient enforcement power and are not always followed by the courts. Investors continue to face low market confidence, transitional accounting standards, a lack of accurate company information, inadequate protection of minority shareholders' rights, and

a macroeconomic environment that, despite marked growth and economic modernization in recent years, remains volatile. Deficiencies in regulations governing operation of registrars led to frequent cases of double registration of shares, resulting in low protection of shareholders' rights.

Ukrainian law allows for the following types of securities:
* share securities (shares, investment certificates);
* debt securities (bonds of enterprises, state bonds of Ukraine, bonds of local loans, treasury obligations of Ukraine, savings (depository) certificates, bills of exchange);
* mortgage securities (mortgage bonds, mortgage certificates, mortgages, certificates of funds of operations with real estate);
* privatization securities;
* derivative securities;
* title securities

According to the SSMSC, 29 collective investment institutions, 757 securities traders, 186 custodians, 2 depositories, 361 registrars, and 11 self-regulatory organizations (six of which are associations) operated in Ukraine last year. Seven stock exchanges were registered in Ukraine. A Ukrainian securities industry broker/dealer self-regulatory organization (SRO) and its nationwide electronic trading system (PFTS) are the largest stock exchange with about 94.8% of secondary onshore trading. PFTS Stock Exchange market capitalization was UAH 565 billion (USD 112 billion) in late 2007. The Ukrainian government is currently considering options to consolidate the remaining, mostly dormant stock exchanges to enhance price transparency, and improve stock exchanges listing standards to establish corporate governance and information disclosure based on international norms.

The absence of a central securities depository complicates transparent and efficient transfer of ownership records, protection of ownership rights and clearance and settlement of trades. Although a state-owned National Depository was created in 1999, the market-owned MFS Depository has been operating commercially as the Ukrainian Depository since 1997 in line with current international practice. The Ukrainian government is currently considering reform options to establish a predominately privately owned Ukrainian Central Depository through the merging of the two institutions.

Principal laws, decrees, and regulations governing Ukraine's capital markets include: the Law "On Securities and Stock Exchanges" (1991), replaced in May 2006 by the Law "On Securities and the Stock Market" (2006), the Law "On Business Associations" (1991), a Presidential Decree "On Investment Funds and Investment Companies" (1994), the Law "On State Regulation of Securities Markets" (1996), Amendments to the Law "On Business Associations" (1996), the Law "On the National Depository System" (1997), the Law "On Accounting and Financial Reporting" (1999), the Law "On Bankruptcy" (1992), the Law "On Collective Investment Institutions" (2001), and the Law "On Financial Services" (2001).

The Law "On Collective Investment Institutions" encourages the creation of mutual funds, introduces the idea of a licensed asset manager, regulates the establishment and operation of subjects of mutual investment, provides guarantees of ownership rights to securities, and protects rights of exchange market participants. The Law "On the Circulation of Promissory Notes" (2001) provides a framework for the circulation of promissory notes in accordance with the Geneva Convention of 1930.

The new Law "On Securities and Stock Market" (2006) represents a major improvement over the prior Law "On Securities and Stock Exchanges" (1991), especially

regarding internationally compliant disclosure requirements

for listed companies, issues of transparency of ownership, and the new rules for insider information and insider trading.

The Law "On Business Associations" is vague and does not support basic shareholders rights and facilitates a large number of corporate governance abuses (including share dilution, asset stripping, and dubious transfer pricing). The law is widely recognized to be inadequate and in need of reform.

A.10. Political Violence

Ukraine is largely free of significant civil unrest or disorders. However, occasionally, mass demonstrations occur in larger cities, such as Kyiv, usually sponsored by individual political forces. Pre-term parliamentary elections took place in September 2007 without any significant disruptions or violence. The likelihood of future widespread, politically inspired violence that would affect foreign property interests remains relatively low.

A.11. Corruption

Corruption pervades all levels of society and government and all spheres of economic activity in Ukraine and is a major obstacle to foreign investment. President Yushchenko has made combating corruption a top priority, although much remains to be accomplished. Ukraine worsened in Transparency International's Year 2007 Corruption Perception Index (CPI), which was published in September ¶2007. The country moved down to 105th place in 2007 on the list of 180 countries, from 99th place out of 163 countries in 2006. In 2007, Transparency International rated Ukraine at 2.7 points on the CPI's 10-point scale, a decline from the 2006 rating of 2.8 points.

Corruption stems from a number of factors, such as a lack of institutional traditions of transparent decision-making and low societal understanding of the importance of corporate governance and transparency. Low public sector salaries fuel corruption in local administrative bodies such as the highway police, the health system, the tax administration, and the education system. Corruption within the Customs Service often makes it more difficult and more costly for businesses to import/export goods. High-level corruption ranges from misuse of government resources and tax evasion to non-transparent privatization and procurement procedures. In short, corruption impacts the daily lives of Ukraine's citizens and important decisions taken at the state level.

Ukraine's prosecution of corruption is based on the Law "On Combating Corruption," which was passed in October 1995. The law is rarely enforced, and on the rare occasions it is enforced, it is normally aimed at lower-level state employees or used retributively in political vendettas. In January 2006, the President Yushchenko signed a decree requiring Ukraine to honor its obligations to the Council of Europe, which include several anti-corruption provisions. In September 2006, the President signed a separate decree adopting a national anti-corruption strategy that directs all branches of government to support these efforts, and the Government of Ukraine followed up by adopting an Action Plan to implement this strategy. In October 2006, the President submitted to parliament a package of draft laws on anti-corruption and ratification instruments for the Council of Europe Criminal Law Convention on Corruption and the UN Convention against Corruption. In August 2007 the President announced a list of several "anti-corruption initiatives" that includes the setting up of a single anti-corruption agency that would develop a comprehensive anti-corruption policy and implement various anti-corruption measures.

In 2006 the U.S. Millennium Challenge Corporation funded Ukraine's proposal for a Threshold Country Program aimed at reducing corruption. This two-year program is providing

about $45 million in assistance to reform the judiciary, streamline regulatory procedures, institute internal assets declaration and inspector generals, enhance civil society and media monitoring of corruption, and reduce corruption in higher education admissions through standardized testing.

Although government action is still limited and uncoordinated, fundamental changes have taken place in the GOU's attitude towards corruption. Gone are the days when GOU officials refused to admit that corruption existed in Ukraine. Government and parliamentary officials now openly discuss the problem of corruption with USG contacts and with the press and public at large. In March 2005, Ukraine ratified the Council of Europe Civil Law Convention on Corruption and became a member of the Council of Europe's Group of States Against Corruption (GRECO). GRECO has concluded its Joint First and Second Rounds of Evaluation of Ukraine and published its report in October 2007. Parliament has passed laws to ratify the Council of Europe Criminal Law Convention on Corruption, signed in January 1999, and the UN Anticorruption Convention, signed in December 2003. However, ratification of these Conventions will come into effect only when additional implementing legislation is adopted. Ukraine is not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

A.12. Bilateral Investment Agreements

BILATERAL INVESTMENT AGREEMENTS

The Bilateral Investment Treaty between the United States and Ukraine came into force on November 16, 1996. The following countries have also signed bilateral investment agreements with Ukraine: Albania (2004), Austria (1996), Argentina (1995), Armenia (1994), Azerbaijan (1997), Belarus (1995), Belgium (2001), Bulgaria (1994), Brunei (2006), Canada (1994), Chile (1995), China (1992), Cuba (1995), Croatia (1997), the Czech Republic (1994), Denmark (1992), Egypt (1992), Estonia (1995), Finland (1992), France (1994), Gambia (2006), Georgia (1995), Germany (1993), Greece (1994), Indonesia (1996), Iran (1996), Israel (1995), Italy (1993), Hungary (1995), Kazakhstan (1994), Korea (1996), Kyrgyzstan (1993), Latvia (1997), Lebanon (1996), Lithuania (1994), Macedonia (1998), Moldova (1995), Mongolia (1992), the Netherlands (1994), Panama (2005), Poland (1993), Portugal (2003), Russia (1998), Saudi Arabia (2003), Slovakia (1994), Slovenia (1999), South Korea (1996), Spain (1998), Sweden (1995), Switzerland (1995), Turkmenistan (1998), Turkey (1996), UK (1993), Uzbekistan (1993), Vietnam (1994), Yugoslavia (2001), Yemen (2002).

A.13. OPIC and Other Investment Insurance Programs

The U.S.-Ukraine Overseas Private Investment Corporation (OPIC) Agreement was signed in Washington on May 6, 1992. OPIC halted support for projects in Ukraine in 1999, however, after the government of Ukraine failed to reimburse OPIC for OPIC's payment of a claim by a U.S. business whose investment had been expropriated. The government is now actively working to find a resolution to this dispute so that OPIC can resume its activities in Ukraine.

In July 2002, the Board of the U.S. Export-Import bank opened facilities for short and medium-term (up to seven years) lending for commercial, and sub-sovereign projects. Ukraine is a member of the Multilateral Investment Guarantee Agency (MIGA).

A.14. Labor

LABOR AVAILABILITY

Ukraine has a well-educated and skilled labor force with

nearly a 100 percent literacy rate. As of September 2007, unemployment (ILO methodology) stood at 6.2 percent, although unemployment in some regions, particularly in western Ukraine, was significantly higher.

WAGES

Wages in Ukraine are very low by Western standards but continue to grow steadily. As of October 2007, the nominal average monthly wage in Ukraine was UAH 1475 ($292), up 35.6% from UAH 1088 ($215) in October 2006. Real wages grew 12.6% between January and October 2007, compared to the same period in 2006. The highest wages are in the financial and aviation sectors while the lowest wages are

paid to agricultural and public health workers.

MINIMUM WAGE

The minimum monthly wage was increased on January 1, 2008 to UAH 515 ($102). Regular increases of the minimum wage are planned.

PENSIONS

In 2004 Ukraine began a comprehensive pension reform program, based on international standards, which envisaged a three-pillar system: Pillar I, a solidarity system, Pillar II, a mandatory accumulation system, and Pillar III, a voluntary private pension system.

For the solidarity system, Pillar I, retirement payouts are determined on the basis of the individual's labor records and contributions. Despite the major reform, the Pillar I system is complex with low retirement ages (60 for men and 55 for woman), full retirement benefits based on 20 years of service for woman and 25 years of service for men, and many special early retirement provisions.

Pillar II, the Mandatory Accumulation System, is to be funded by pension contributions made by individuals. The conditions for the introduction of Pillar II have been met, but new legislation is required. The draft law to introduce Pillar II was submitted to Parliament in December 2006 and passed the first reading in April 2007. The draft law provides for a gradual phase-in of employee contributions to the Accumulation Fund starting with 2% in 2009 and increasing by 1% per year to 7% in 2014.

Pillar III, voluntary private pension funds, began actual operations at the end of 2004. The development of private pension funds was positive in 2006, with an almost three-fold increase in assets and a 46 percent increase in the number of funds (from 54 private pension funds to 79).

According to the financial services regulator, private pension fund assets have increased by an average 35 percent per fiscal quarter since becoming available in 2004. In Q1 2005, assets under management of Private Pension Funds were $2.53 million, in Q4 2006 - $27.20 million, and in Q3 2007 - $44.85 million. However, Ukraine's capital markets remain underdeveloped and do not provide these funds with enough sound, long-term investment opportunities in the equity, debt and real estate markets. As a result, assets of private pension funds continue to be invested primarily in bank deposits, which do not meet the long-term portfolio needs of these funds. The ongoing weakness of the market regulatory structure compounds the problem. If the situation continues, the risk will grow that private pension funds will fail to perform in line with the overall growth of the economy in the future. Various international donor initiatives are supporting the Ukrainian government's efforts to strengthen the breadth, liquidity and regulatory framework of the country's markets with the goal of creating the conditions for sustainable long term investment opportunities.

LABOR/MANAGEMENT RELATIONS

Ukrainian workers are generally accustomed to "top-down" management practices and therefore tend not to demonstrate initiative. A younger, more independent-minded generation is slowly moving into the workforce, and it is becoming easier to find professional personnel who function independently.

Although investors may encounter government resistance to trimming the work force to an efficient level, across-the-board demands to maintain employment levels are disappearing. Ukrainian enterprises often still maintain much of the social infrastructure of their immediate community (schools for local children, cafeterias, and medical facilities). While many local officials are willing to work with businesses to identify social services that an enterprise must support, such arrangements should be clearly spelled out before investments are started.

Ukraine's Labor Code remains outdated and inappropriate for a market economy. The government has drafted a new, more modern Labor Code, but it failed to move forward in

Parliament in 2007 due to a protracted political crisis in the country.

A.15. Foreign Trade Zones/ Free Ports

Ukraine has in the past maintained two forms of special economic zones (SEZs): Free Economic Zones (FEZs) and Priority Development Territories (PDTs). In April 2005, Ukraine canceled all tax exemptions (i.e., from land tax, corporate income tax, import duty, and VAT on imports) to investors in all SEZs to stop large-scale misuse of these zones for tax evasion and smuggling. While the step reduced corruption and expanded the tax base, the abrupt cancellation of privileges and lack of compensatory provisions caused losses to some legitimate investors. At the end of 2006, the Ukrainian government announced its intention to renew tax privileges granted to businesses operating in some SEZs and to introduce a compensation mechanism for investors, but a draft law on the subject never went forward. At least one SEZ had retained tax privileges due to a court ruling, but those and all other privileges were again annulled by the new Ukrainian government in December 2007. In November 2005, the Parliament adopted legislation to create technology parks, providing for some government financial support, targeted subsidies, and tax privileges for a list of 16 technoparks based on existing scientific and research institutes.

A.16. Foreign Direct Investment Statistics

FOREIGN DIRECT INVESTMENT

According to Ukraine's State Statistics Committee, as of October 2007 the total stock of FDI in Ukraine was $26.9 billion, or $576 per capita. This was a 35.2% increase from October 2006, when the total stock of FDI stood at $19.9 billion, or $424 per capita.

Mittal Steel's October 2005 purchase of the Kryvorizhstal Steel Mill represented a major inflow of FDI, at $4.8 billion, into Ukraine. Purchases of Ukrainian banks by European banks have represented another major inflow of foreign direct investment in recent years: Raiffeisen International acquired Bank Aval for $1.0 billion in 2005; BNP Paribas acquired Ukrsibbank for $360 million in 2005; UniCredit Group acquired Ukrsotsbank for $2.1 billion in 2007; Swedbank acquired TAS-Kommerzbank for $735 million in 2007; and Commerzbank acquired Forum Bank for $600 million in 2007. Also in 2007, PepsiAmericas and PepsiCo jointly purchased 100% of the leading Ukrainian juice producer Sandora for a total of $679 million.

FDI BY COUNTRY

As of October 1, 2007 Ukraine's major investors included:

Germany (21.4% of total FDI), Cyprus (18.5%), the Netherlands (8.1%), Austria (7.5%), the United Kingdom (6.8%), the United States (5.3%), and Russia (5.0%). Cyprus remains a popular offshore destination for Ukrainian and Russian enterprises through which to channel investments.

FDI BY INDUSTRY SECTOR DESTINATION

Over the first 9 months of 2007, 15.7% of new FDI went to the financial sector, 8.5% -- to domestic trade, 8.4% -- to real estate, 5.7 % -- to the metallurgy sector, 5.6% -- to food, beverages, and tobacco production, 5.2% -- to construction, and 3.8% -- to machine building.

End Text.

TAYLOR